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SUBJECT: AIR POLLUTION: HURTING HONG KONG'S ECONOMIC
COMPETITIVENESS

REF: HONG KONG 3601

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1.(SBU) Summary: In an American Chamber of Commerce survey of 140 top executives in Hong Kong, 95% expressed concern over the long term health effects of breathing Hong Kong's polluted air. The study indicates that Hong Kong businesses experience difficulties in recruiting and retaining top talent due to a perceived deterioration in air quality. 59% of respondents said that the lack of concrete government attention to the environment might cause them to invest elsewhere. The Hong Kong government (HKG) reacted by reiterating its commitment to improving air quality through two programs it rolled out this summer, &Action Blue Sky8 and an emissions trading scheme. While the public has welcomed signs of government action, current initiatives appear designed more for political impact than environmental results. AmCham officials hope their survey will help build momentum for more substantive proposals by the government. End Summary.

The Economic Consequences of Bad Air

12. (U) The American Chamber of Commerce in Hong Kong (AmCham) published its 2006 Environmental Survey on August 28, 2006. The AC Nielsen survey encompassed 140 top executives from AmCham member companies with collective employment figures of approximately 250,000 Hong Kong residents. The survey quantifies anecdotal evidence that foreign companies find Hong Kong a less attractive place to do business due to deteriorating air quality. 95% of respondents were &very worried8 or &somewhat worried8 on the long-term impact of Hong Kong's air quality on their health or the health of their children. 79% felt that Hong Kong's attractiveness to foreign investors will decrease over time if current air quality trends continue; 59% said that current trends may cause them to invest their money outside of Hong Kong. 39% experienced difficulties in recruiting employees into Hong Kong, while 55% reported having colleagues who refused to come to Hong Kong because of recent environmental trends. This study underscores the points made by James Connaughton, Chairman of the White House Council on Environmental Quality, that investing in environmental protection has long-term economic benefits. (See Reftel)

13. (SBU) Alan Siegrist, AmCham Environmental Committee Chairman, told EconOff the study provides concrete data that the environmental degradation) particularly air pollution) is having economic consequences. He noted that the HKG

had not responded seriously to previous calls to develop concrete programs to address air quality. Siegrist characterized current efforts as largely public relations campaigns in preparation for the upcoming elections. Siegrist echoed criticisms by NGO leaders, energy executives, and legislators that recent HKG initiatives fail to address the root causes of deteriorating air quality: maritime/port pollution, outdated transportation systems, and unprecedented industrial growth in the Pearl River Delta (PRD).

¶4. (U) The Hong Kong government has responded to the widely publicized survey by reaffirming its determination to fight air pollution. It stated that Hong Kong would meet its emission reduction targets for 2010, but did not propose new initiatives. Some, however, have acknowledged the extent of the problem. Victor Fung, Chairman of the government-backed Greater Pearl River Delta Business Council, publicly stated that pollution & up to a year ago really hadn't hit our pocketbook, now people are not coming to Hong Kong.⁸

&Clean Air for a Cool Hong Kong⁸

¶5. (U) Prior to the publication of the AmCham survey, the Hong Kong government initiated two environmental programs in ¶2006. Chief Executive Donald Tsang announced the first, &Action Blue Sky,⁸ in July by requesting Hong Kong citizens, businesses, and schools help the government combat air pollution. He urged the public to raise air-conditioner settings in homes and offices to 25.5 degrees Celsius, take public transportation, and shed their jackets and ties in summer. In this public awareness campaign, he and Sarah Liao, Secretary for the Environment, Transport and Works, reiterate continually that the public must bear the price of

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cleaning up the air by changing daily activities and must not depend on the government alone for action.

¶6. (U) &Action Blue Sky⁸ has received much publicity, but old habits die hard. Surveys by the local media reveal that the majority of Hong Kong office buildings and hotels have yet to raise air temperatures, while the outer doors of many Hong Kong shopping centers and restaurants remain open despite air-conditioning use. Furthermore, &Lights Out,⁸ an event sponsored by local environmental groups to urge Hong Kong residents to turn off their lights in a symbolic protest against worsening air pollution, received lack-luster response from the public with participation from only 15 to 20 percent of residents and businesses in Central Hong Kong. The government also refused to cancel the Hong Kong harbor light show that evening, claiming that the cancellation would negatively impact tourism. Organizers stated that the government's failure to participate ran contrary to its own calls for action.

¶7. (SBU) A local air quality expert told us that &Action Blue Sky⁸ was repackaged old news. He argued that the government simply finesses the problem, but continually fails to address broader issues behind worsening air quality, such as marine emissions, factory pollution in Guangdong, poor urban planning and continued use of low-grade automobile fuels from the PRC. Representatives from local NGO,s all concurred that &Action Blue Sky⁸ did not constitute a viable, long-term energy and environmental policy.

Emissions Trading: Lofty Words with No Specifics

¶8. (U) As part of the Hong Kong/Guangdong Cooperation Joint Conference, Donald Tsang announced the second environmental/energy program, the &Emission Trading Pilot Scheme for Thermal Power Plants.⁸ The HKG and Guangdong government will present the plan to power producers later this year, but initial reports indicate that it will allow polluters in the energy sector to buy and sell emissions

rights for three types of pollutants: sulfur dioxide, nitrogen dioxide and particulates. Emissions levels and other details remain unclear. The government argues that the plan will provide Hong Kong power companies with a cost-effective mechanism to meet emissions requirements. All reports indicate that this scheme will apply only to electricity producers, not to polluters in other industries.

¶9. (SBU) The trading scheme proposal currently lacks substance. Hong Kong energy companies remain concerned over the sole focus on the energy sector and the failure to include PRD manufacturers, who rely on diesel power to keep production running. They criticize the plan for failing to address 1) how legal issues would be resolved between the two jurisdictions; 2) how quotas and costs would be decided; 3) how transparency can be assured in Guangdong, particularly given the low salaries of inspectors, the lack of rule of law, and ample opportunities for corruption. As a Civic Exchange representative put it, the power companies fear they) and by default the Hong Kong consumer) will be forced to &dump money into the black hole of the Mainland8 without any guarantee of results. The power producers appear to be easy targets because the government has political leverage over this sector with the upcoming decisions over the soon-to-expire Scheme of Control agreement between the HKG and Hong Kong power firms.

¶10. (SBU) The media and public have questioned the ability of both Hong Kong and Guangdong to set up an effective emissions trading program due to differences in their regulatory and legal systems. Success clearly depends on a willingness of localities in the mainland and Hong Kong to give up some short-term economic interests for longer-term environmental benefits.

¶11. (SBU) Roy Tang of the Hong Kong Environmental Protection Department told EconOff that the HKG has a comprehensive package of programs to address environmental quality that includes cross-border agreements, emissions trading, and public awareness campaigns. He stated that the government will roll out further details on the proposal by the end of the year. He noted that the scheme, which is not mandatory, is just one tool to assist power producers to reduce emissions. He reiterated Hong Kong,s willingness to address the pollution issue and its ability to meet its 2010 reduction targets.

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¶12. (SBU) Nonetheless, pressure is mounting on the government. The Chief Executive,s office announced that the environment will be the focus of his annual policy address in October, and a recent address by the CE to Hong Kong's consular corps led off with a long recitation of all the effort the HKG is mounting to combat pollution. Air quality continues to be a common topic in private discussions across Hong Kong, particularly since air quality has deteriorated so rapidly in the past ten years. In fact, during a Consulate meeting on a different topic, a senior executive of an American firm commented on the AmCham study, saying air pollution was a deciding factor in his decision to move their regional office from Hong Kong to Singapore. Civic groups, academics and opposition party members also have stepped up political pressure to act. With Hong Kong natives and the international business community in the HKSAR beginning to raise their voices, the HKG remains under the gun to come up with comprehensive and viable proposals to address air quality issues, particularly cross-border environmental problems.

Cunningham